MULTIMEDIA UNIVERSITY®

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

# FINAL EXAMINATION

**TRIMESTER 2, 2022/2023**

## BAC3664 – ACCOUNTING THEORY

(All sections/Groups)

13 JULY 2023
9.00 a.m – 12.00 p.m
(3 Hours)

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## INSTRUCTIONS TO STUDENT

1. This question paper consists of 2 pages (excluding the cover page) with 4 Questions only.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

## QUESTION 1

(a) Briefly explain the public interest theory and economic interest theory. Your explanation should include the role of the regulator for each theory.

**(10 marks)**

(b) Premature or aggressive revenue recognition is the most widely earnings management practice. In other words, managers recognize revenues before they have been earned or become realized. In 1999, in order to keep up with revenue and earnings growth as well as with the competition, Trade-will Bhd. adopted an aggressive market strategy. Trade-will Bhd., possibly pressured to meet the numbers. Trade-will Bhd's. major incentive was to keep on reporting earnings and revenues above market expectation, to increase market capitalization. As virtually all companies, also Trade-will Bhd. has strong incentives to smooth earnings to appear less volatile. Although such aggressive strategies can substantially increase current sales, the extra revenue is often generated at the expense of future sales at the list price. These strategies can constitute normal and legitimate business practices, but they can also be misleading to investors reading the financial reports.

Based on short case above, answer the following questions:

(i) Describe aggressive revenue recognition. Support your answer with the example.

**(5 marks)**

(ii) Explain the motivation of Trade-will Bhd. to adopt aggressive revenue recognition.

**(10 marks)**

**(Total: 25 marks)**

## QUESTION 2

(a) Elaborate the central assumption of agency theory and how it leads to the agency costs.

**(10 marks)**

(b) Differentiate the concept of manager-shareholder problem and manager-debtholder problem from the perspective of Agency Theory. Provide example for each problem.

**(15 marks)**

**(Total: 25 marks)**

**Continued ...**

## QUESTION 3

(a) Research has shown that earnings has a low response effect on share price. Instead, other information has more impact on share price changes. Describe what capital market research has found regarding information content that can make a change to share prices.

**(15 marks)**

(b) Sin & Watts (2000) found that losses made by financially healthy firms did not always cause changes in share prices. This may be due to shareholder's expectations of later reversals. How could Efficient Market Hypothesis explain this phenomenon?

**(10 marks)**

**(Total: 25 marks)**

## QUESTION 4

(a) Cost prediction is one of the most important areas in management accounting. Describe how the Brunswick Lens Model be used to increase the quality and accuracy of the cost prediction in management accounting?

**(15 marks)**

(b) Sustainability Reporting has become an increasingly important part of corporate communications. Explain why companies would produce sustainability reports. Support your explanation with relevant theories in accounting.

**(10 marks)**

**(Total: 25 marks)**

**End of Paper**